

Mortgage loans to conference churches. An organization formed and controlled by an exempt conference of churches that borrows funds from individuals and makes mortgage loans at less than the commercial rate of interest to affiliated churches to finance the construction of church buildings qualifies for exemption under section 501(c)(3) of the Code.

Advice has been requested whether the activities of the organization described below qualify as charitable for purposes of exemption from Federal income tax under section 501(c)(3) of the Internal Revenue Code of 1954 where the organization otherwise qualifies for such exemption.

The organization was formed and is controlled by a conference of churches that is recognized as exempt under section 501(c)(3) of the Code and that is composed of churches of the same religious denomination. It makes mortgage loans to churches that are members of the conference to finance the construction of church buildings approved by the conference. The rate of interest on the mortgage loans is lower than the rates available at commercial lending institutions. The organization obtains its funds by borrowing from individuals. All such funds and interest income earned from loans are used in carrying out the organization's mortgage loan program.

Section 501(c)(3) of the Code provides for the exemption from Federal income tax of organizations organized and operated exclusively for charitable purposes.

Section 1.501(c)(3)-1(d)(2) of the Income Tax Regulations states that the term 'charitable' is used in its generally accepted legal sense, and includes advancement of religion.

Rev. Rul. 68-26, 1968-1 C.B. 272 holds that an organization formed and controlled by a church to print and sell educational and religious materials to the church's parochial school system and which returned all profits annually to that school system qualifies for exemption from tax under the provisions of section 501(c)(3) of the Code. The organization described therein is considered to be carrying out an integral part of the activities of the church, the parent organization.

In making mortgage loans at less than commercial rates of interest to churches of the conference for church buildings approved by the conference, the organization operates under the close supervision and control of the parent church conference. It is considered to be carrying out an integral part of the activities of the parent, i.e., aiding member churches in obtaining facilities for their religious purposes.

Accordingly, the activities of the organization qualify as charitable for purposes of exemption from Federal income tax under

section 501(c)(3) of the Code.

Even though an organization considers itself within the scope of this Revenue Ruling, it must file an application on Form 1023, Application for Recognition of Exemption, in order to be recognized by the Service as exempt under section 501(c)(3) of the Code. The application should be filed with the District Director of Internal Revenue for the district in which is located the principal place of business or principal office of the organization. See sections 1.501(a)-1 and 1.508-1(a) of the regulations.